

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 25, 2001.

-----  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

COMMISSION FILE NUMBER 0-12919

PIZZA INN, INC.  
(EXACT NAME OF REGISTRANT IN ITS CHARTER)

MISSOURI 47-0654575  
(STATE OR OTHER JURISDICTION OF (I.R.S. EMPLOYER  
INCORPORATION OR ORGANIZATION) IDENTIFICATION NO.)

5050 QUORUM DRIVE  
SUITE 500  
DALLAS, TEXAS 75240  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES,  
INCLUDING ZIP CODE)

(972) 701-9955  
(REGISTRANT'S TELEPHONE NUMBER,  
INCLUDING AREA CODE)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. YES  NO

INDICATE BY CHECK MARK WHETHER THE REGISTRANT HAS FILED ALL DOCUMENTS AND REPORTS REQUIRED TO BE FILED BY SECTIONS 12, 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 SUBSEQUENT TO THE DISTRIBUTION OF SECURITIES UNDER A PLAN CONFIRMED BY A COURT. YES  NO

AT MAY 7, 2001, AN AGGREGATE OF 10,480,288 SHARES OF THE REGISTRANT'S COMMON STOCK, PAR VALUE OF \$.01 EACH (BEING THE REGISTRANT'S ONLY CLASS OF COMMON STOCK), WERE OUTSTANDING.

PIZZA INN, INC.

Index  
-----

PART I. FINANCIAL INFORMATION

Item		Page
1.	Financial Statements	
	Consolidated Statements of Operations for the three months and nine months ended March 25, 2001 and March 26, 2000	3
	Consolidated Balance Sheets at March 25, 2001 and June 25, 2000	4
	Consolidated Statements of Cash Flows for the nine months ended March 25, 2001 and March 26, 2000	5
	Notes to Consolidated Financial Statements	7
2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	11

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders 14

Item 6. Exhibits and Reports on Form 8-K 14

Signatures 15

## PART 1. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL INFORMATION

PIZZA INN, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 25, 2001	MARCH 26, 2000	MARCH 25, 2001	MARCH 26, 2000
REVENUES:				
Food and supply sales . . . . .	\$ 13,369	\$ 13,934	\$ 41,599	\$ 43,555
Franchise revenue . . . . .	1,311	1,365	4,050	4,233
Restaurant sales . . . . .	609	595	1,760	1,753
Other income . . . . .	77	73	293	151
	-----	-----	-----	-----
	15,366	15,967	47,702	49,692
	-----	-----	-----	-----
COSTS AND EXPENSES:				
Cost of sales . . . . .	12,764	13,260	39,399	41,658
Franchise expenses . . . . .	548	564	1,729	1,471
General and administrative expenses	942	936	3,125	2,773
Interest expense . . . . .	197	187	700	505
	-----	-----	-----	-----
	14,451	14,947	44,953	46,407
	-----	-----	-----	-----
INCOME BEFORE INCOME TAXES . . . . .	915	1,020	2,749	3,285
Provision for income taxes . . . . .	311	347	970	1,121
	-----	-----	-----	-----
NET INCOME . . . . .	\$ 604	\$ 673	\$ 1,779	\$ 2,164
	=====	=====	=====	=====
BASIC EARNINGS PER COMMON SHARE . . .	\$ 0.06	\$ 0.06	\$ 0.17	\$ 0.19
	=====	=====	=====	=====
DILUTED EARNINGS PER COMMON SHARE . .	\$ 0.06	\$ 0.06	\$ 0.17	\$ 0.19
	=====	=====	=====	=====
DIVIDENDS DECLARED PER COMMON SHARE .	\$ -	\$ 0.06	\$ 0.12	\$ 0.18
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON SHARES . . .	10,609	11,569	10,689	11,463
	=====	=====	=====	=====
WEIGHTED AVERAGE COMMON AND POTENTIAL DILUTIVE COMMON SHARES . .	10,610	11,668	10,693	11,610
	=====	=====	=====	=====

See accompanying Notes to Consolidated Financial Statements.

PIZZA INN, INC.  
CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	MARCH 25, 2001	JUNE 25, 2000
	-----	-----
ASSETS		
(UNAUDITED)		
CURRENT ASSETS		
Cash and cash equivalents . . . . .	\$ 374	\$ 484
Accounts receivable, less allowance for doubtful		

accounts of \$755 and \$776, respectively. . . . .	5,063	4,681
Notes receivable, current portion, less allowance for doubtful accounts of \$248 and \$260, respectively . . . .	979	810
Inventories. . . . .	1,783	2,910
Deferred taxes, net. . . . .	1,139	1,117
Prepaid expenses and other . . . . .	612	566
	-----	-----
Total current assets . . . . .	9,950	10,568
Property, plant and equipment, net . . . . .	3,596	1,650
Property under capital leases, net . . . . .	769	1,165
Deferred taxes, net. . . . .	2,506	3,312
Long-term notes receivable, less allowance for doubtful accounts of \$14 and \$66, respectively . . . . .	6	262
Deposits and other . . . . .	619	734
	-----	-----
	\$ 17,446	\$ 17,691
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable - trade . . . . .	\$ 1,696	\$ 2,251
Accrued expenses . . . . .	2,364	1,797
Current portion of long-term debt. . . . .	1,250	1,250
Current portion of capital lease obligations . . . . .	529	534
	-----	-----
Total current liabilities. . . . .	5,839	5,832
LONG-TERM LIABILITIES		
Long-term debt . . . . .	9,604	9,842
Long-term capital lease obligations. . . . .	421	813
Other long-term liabilities. . . . .	913	715
	-----	-----
	16,777	17,202
	-----	-----
SHAREHOLDERS' EQUITY		
Common Stock, \$.01 par value; authorized 26,000,000 shares; issued 14,955,019 and 14,954,789 shares, respectively outstanding 10,579,688 and 10,645,380 shares, respectively.	150	150
Additional paid-in capital . . . . .	7,823	7,708
Loans to officers. . . . .	(2,325)	(2,250)
Retained earnings. . . . .	13,498	13,163
Accumulated other comprehensive income . . . . .	(104)	-
Treasury stock at cost		
Shares in treasury: 4,375,331 and 4,309,409 respectively . .	(18,373)	(18,282)
	-----	-----
Total shareholders' equity . . . . .	669	489
	-----	-----
	\$ 17,446	\$ 17,691
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

PIZZA INN, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	NINE MONTHS ENDED	
	MARCH 25, 2001	MARCH 26, 2000
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income. . . . .	\$ 1,779	\$ 2,164
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization . . . . .	1,002	884
Provision for bad debt. . . . .	160	75
Utilization of pre-reorganization net operating loss carryforwards. . . . .	784	752
Changes in assets and liabilities:		

Notes and accounts receivable . . . . .	(455)	(452)
Inventories . . . . .	1,127	134
Accounts payable - trade . . . . .	(555)	(28)
Accrued expenses . . . . .	565	(41)
Prepaid expenses and other . . . . .	171	(16)
	-----	-----
CASH PROVIDED BY OPERATING ACTIVITIES . . . . .	4,578	3,472
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures . . . . .	(2,482)	(617)
	-----	-----
CASH USED FOR INVESTING ACTIVITIES . . . . .	(2,482)	(617)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings of long-term bank debt . . . . .	3,035	3,218
Repayments of long-term bank debt and capital lease obligations	(3,670)	(855)
Dividends paid . . . . .	(1,243)	(2,095)
Proceeds from exercise of stock options . . . . .	298	143
Officer loan payment . . . . .	165	-
Purchases of treasury stock . . . . .	(791)	(3,424)
	-----	-----
CASH USED FOR FINANCING ACTIVITIES . . . . .	(2,206)	(3,013)
	-----	-----
Net decrease in cash and cash equivalents . . . . .	(110)	(158)
Cash and cash equivalents, beginning of period . . . . .	484	509
	-----	-----
Cash and cash equivalents, end of period . . . . .	\$ 374	\$ 351
	-----	-----

See accompanying Notes to Consolidated Financial Statements.

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION  
(IN THOUSANDS)  
(UNAUDITED)

	NINE MONTHS ENDED	
	MARCH 25, 2001	MARCH 26, 2000
	-----	-----
CASH PAYMENTS FOR:		
Interest . . . . .	\$ 736	\$ 399
Income taxes . . . . .	25	75
NONCASH FINANCING AND INVESTING ACTIVITIES:		
Stock issued to officers in exchange for loans \$	303	\$ 2,057
Capital lease obligations incurred . . . . .	-	158

See accompanying Notes to Consolidated Financial Statements.

PIZZA INN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(1) The accompanying consolidated financial statements of Pizza Inn, Inc. (the "Company") have been prepared without audit pursuant to the rules and

regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements have been omitted pursuant to such rules and regulations. The consolidated financial statements should be read in conjunction with the notes to the Company's audited consolidated financial statements in its Form 10-K for the fiscal year ended June 25, 2000. Certain prior year amounts have been reclassified to conform with current year presentation.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments necessary to fairly present the Company's financial position and results of operations for the interim periods. All adjustments contained herein are of a normal recurring nature.

(2) The Company entered into an agreement effective March 31, 2000 with its current lender to extend the term of its existing \$9.5 million revolving credit line through March 2002 and to modify certain financial covenants. In addition, the Company entered into a \$5,000,000 term note with monthly principal payments of \$104,000 maturing on March 31, 2004. Interest on the term loan is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .75%, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company entered into an amendment to this agreement, effective December 28, 2000, modifying certain financial covenants, as a result of a new construction loan as noted below. The Company has used approximately \$2.9 million of its credit line to fund costs of the new building project, including the land acquisition and certain development costs incurred to date.

The Company entered into an agreement effective December 28, 2000 with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan will convert to a term loan upon completion of the construction phase and the then unpaid principal balance will mature on December 28, 2007. The term loan will amortize over a term of twenty years, with principal and interest payments due monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .50% prior to loan conversion and .75% following loan conversion, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate after the conversion date.

(3) Effective February 27, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities". The Company entered into an interest rate swap on that date, designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of \$8.125 million with a fixed pay rate of 5.80% beginning November 1, 2001 and ending November 1, 2007. SFAS No. 133 requires that for cash flow hedges, which hedge the exposure to variable cash flows of a forecasted transaction, the effective portion of the derivative's gain or loss be initially reported as a component of other comprehensive income in the equity section of the balance sheet and subsequently reclassified into earnings when the forecasted transaction affects earnings. Any ineffective portion of the derivative's gain or loss is reported in earnings immediately. At March 25, 2001, the Company recorded its interest rate swap with a fair value of \$157,000 in other liabilities, with the offset recorded in the other comprehensive income component of stockholder's equity and in deferred income taxes. At March 25, 2001, there was no hedge ineffectiveness. The Company's expectation is that the hedging relationship will be highly effective at achieving offsetting changes in cash flows.

(4) The following table summarizes comprehensive income for the three months and nine months ended March 25, 2001 and March 26, 2000.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 25, 2001	MARCH 26, 2000	MARCH 25, 2001	MARCH 26, 2000
(IN THOUSANDS)				
Net Income	\$ 604	\$ 673	\$ 1,779	\$ 2,164
Derivative instrument loss, net of tax	(104)	-	(104)	-

Comprehensive income. . . . . \$ 500 \$ 673 \$ 1,675 \$ 2,164  
 =====

(5) In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101, which provides the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements, must be adopted by the Company in its fiscal fourth quarter. Based on preliminary analysis, the Company does not expect the adoption of SAB 101 to have a material effect on its consolidated financial statements.

(6) The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying asset and will be amortized over the useful life of the asset. For the quarter and nine months ended March 25, 2001 interest of \$43,000 was capitalized in connection with the construction of the Company's new headquarters, training center, and distribution facility.

(7) The following table shows the reconciliation of the numerator and denominator of the basic EPS calculation to the numerator and denominator of the diluted EPS calculation (in thousands, except per share amounts).

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
	-----	-----	-----
THREE MONTHS ENDED MARCH 25, 2001			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 604	10,609	\$ 0.06
Effect of Dilutive Securities - Stock Options		1	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions . . . . .	\$ 604	10,610	\$ 0.06
	=====	=====	=====
THREE MONTHS ENDED MARCH 26, 2000			
BASIC EPS			
Income Available to Common Shareholders . . .	\$ 673	11,569	\$ 0.06
Effect of Dilutive Securities - Stock Options		99	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions . . . . .	\$ 673	11,668	\$ 0.06
	=====	=====	=====
NINE MONTHS ENDED MARCH 25, 2001			
BASIC EPS			
Income Available to Common Shareholders	\$ 1,779	10,689	\$ 0.17
Effect of Dilutive Securities - Stock Options		4	
		-----	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 1,779	10693	\$ 0.17
	=====	=====	=====
NINE MONTHS ENDED MARCH 26, 2000			
BASIC EPS			
Income Available to Common Shareholders	\$ 2,164	11,463	\$ 0.19
Effect of Dilutive Securities - Stock Options		147	
		---	
DILUTED EPS			
Income Available to Common Shareholders & Assumed Conversions	\$ 2,164	11,610	\$ 0.19
	=====	=====	=====

(8) Summarized in the following tables are net sales and operating revenues, operating profit (loss), and geographic information (revenues) for the Company's

reportable segments for the three months and nine months ended March 25, 2001, and March 26, 2000.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MARCH 25, 2001	MARCH 26, 2000	MARCH 25, 2001	MARCH 26, 2000
(In thousands)		(In thousands)		
<b>NET SALES AND OPERATING REVENUES:</b>				
Food and Equipment Distribution	\$ 13,369	\$ 13,934	\$ 41,599	\$ 43,555
Franchise and Other	1,920	1,960	5,810	5,986
Intersegment revenues	220	206	639	624
Combined	15,509	16,100	48,048	50,165
Other revenues	77	73	293	151
Less intersegment revenues	(220)	(206)	(639)	(624)
Consolidated revenues	\$ 15,366	\$ 15,967	\$ 47,702	\$ 49,692
<b>OPERATING PROFIT:</b>				
Food and Equipment Distribution (1)	\$ 757	\$ 722	\$ 2,320	\$ 1,904
Franchise and Other (1)	631	769	1,952	2,822
Intersegment profit	69	12	196	167
Combined	1,457	1,503	4,468	4,893
Other profit or loss	77	73	293	151
Less intersegment profit	(69)	(12)	(196)	(167)
Corporate administration and other	(550)	(544)	(1,816)	(1,592)
Income before taxes	\$ 915	\$ 1,020	\$ 2,749	\$ 3,285
<b>GEOGRAPHIC INFORMATION (REVENUES):</b>				
United States	\$ 15,181	\$ 15,571	\$ 47,154	\$ 48,756
Foreign countries	185	396	548	936
Consolidated total	\$ 15,366	\$ 15,967	\$ 47,702	\$ 49,692

(1) Does not include full allocation of corporate administration.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Quarter and nine months ended March 25, 2001 compared to the quarter and nine months ended March 26, 2000.

Diluted earnings per share for the third quarter of the current fiscal year were \$0.06 versus \$0.06 for the same period last year. For the nine months ended March 25, 2001, diluted earnings per share decreased 11% to \$0.17 from \$0.19 for the same period last year. Net income for the quarter decreased 10% to \$604,000 from \$673,000 for the same quarter last year. For the nine months ended March 25, 2001, net income decreased 18% to \$1,779,000 from \$2,164,000 compared to the same period last year.

Food and supply sales for the quarter decreased 4% to \$13,369,000 from \$13,934,000 compared to the same period last year. For the nine month period, food and supply sales decreased 4% to \$41,599,000 from \$43,555,000 for the same period last year. This decrease is the result of lower chainwide sales in the first nine months of this year and lower cheese prices in the first two quarters of this year.

Franchise revenue, which includes income from royalties, license fees and area development and foreign master license (collectively, "Territory") sales, decreased 4% or \$54,000 for the quarter and 4% or \$183,000 for the nine month



period, compared to the same periods last year. These decreases are primarily the result of lower royalties due to lower chainwide sales in the first nine months of the current year.

Restaurant sales, which consists of revenue generated by Company-owned training stores increased 2% or \$14,000 for the quarter, compared to the same period of the prior year. For the nine month period, restaurant sales increased \$7,000.

Cost of sales decreased 4% or \$496,000 for the quarter and decreased 5% or \$2,259,000 for the nine month period. This decrease is due to increased purchasing efficiencies, lower chainwide sales in the current year, and lower cheese prices in the first two quarters of the current year. These lower costs are partially offset by higher depreciation and amortization costs, rent costs, and transportation costs in the current year. As a percentage of sales for the quarter, cost of sales remained consistent at 91% versus 91% compared to the same period of the prior year. For the nine months, cost of sales, as a percentage of sales, decreased from 92% to 91%.

Franchise expenses include selling, general and administrative expenses directly related to the sale and continuing service of franchises and Territories. These costs decreased 3% or \$16,000 for the quarter and increased 18% or \$258,000 for the nine month period compared to the same periods last year. The decrease for the quarter is due to lower marketing expense. The increase year to date was primarily due to lower marketing expense in the prior year and lower compensation expense relating to franchise sales in the prior year.

General and administrative expenses increased 1% or \$6,000 for the quarter and increased 13% or \$352,000 for the first nine months, compared to the same periods last year. This is a result of programming costs that were capitalized as software development costs in the prior year, and higher bad debt expense and increased insurance costs in the first two quarters of the current year. In addition, salaries and wages increased 7% and 5% for the quarter and year-to-date, respectively. These costs were partially offset by lower travel expense and franchise tax expense.

Interest expense increased 5% or \$10,000 for the quarter and 39% or \$195,000 for the first nine months, compared to the same period of the prior year. This is a result of higher average debt and higher average interest rates. The current quarter interest expense was partially offset by a credit for capitalized interest in the amount of \$43,000 relating to the construction of the Company's new headquarters.

#### LIQUIDITY AND CAPITAL RESOURCES

During the first nine months of fiscal 2001 the Company utilized cash provided by operations in the amount of \$4,578,000 and a portion of its cash balance to purchase 280,922 shares of its own common stock for \$791,000, to pay dividends of \$1,243,000 on the Company's common stock, and to make net repayments on bank debt and capital lease obligations of \$635,000.

Capital expenditures of \$2,482,000 during the first nine months included initial development costs for the new Corporate headquarters including the land acquisition, prototype costs for the self-serve buffet concept, vehicle upgrades, and computer equipment and system upgrades.

The Company continues to realize substantial benefit from the utilization of its net operating loss carryforwards (which currently total \$6.7 million and expire in 2005) to reduce its federal tax liability from the 34% tax rate reflected on its statement of operations to an actual payment of approximately 2% of taxable income. Management believes that future operations will generate sufficient taxable income, along with the reversal of temporary differences, to fully realize its net deferred tax asset balance (\$3.6 million as of March 25, 2001) without reliance on material, non-routine income. Taxable income in future years at the current level would be sufficient for full realization of the net tax asset.

The Company entered into an agreement effective March 31, 2000 with its current lender to extend the term of its existing \$9.5 million revolving credit line through March 2002 and to modify certain financial covenants. In addition, the Company entered into a \$5,000,000 term note with monthly principal payments of \$104,000 maturing on March 31, 2004. Interest on the term loan is payable monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .75%, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company entered into an amendment to this agreement, effective December 28, 2000, modifying certain financial covenants, as a result of a new construction loan as noted below. The Company has used approximately

\$2.9 million of its credit line to fund costs of the new building project, including the land acquisition and certain development costs incurred through April 30, 2001.

The Company entered into an agreement effective December 28, 2000 with its current lender to provide up to \$8.125 million of financing for the construction of the Company's new headquarters, training center and distribution facility. The construction loan will convert to a term loan upon completion of the construction phase and the then unpaid principal balance will mature on December 28, 2007. The term loan will amortize over a term of twenty years, with principal and interest payments due monthly. Interest is provided for at a rate equal to prime less an interest rate margin of .50% prior to loan conversion and .75% following loan conversion, or, at the Company's option, to the Eurodollar rate plus 1.5%. The Company, to fulfill bank requirements, has caused the outstanding principal amount to be subject to a fixed interest rate after the conversion date.

Effective February 27, 2001, the Company entered into an interest rate swap designated as a cash flow hedge, to manage interest rate risk relating to the financing of the construction of the Company's new headquarters and to fulfill bank requirements. The swap agreement has a notional principal amount of \$8.125 million with a fixed pay rate of 5.80% beginning November 1, 2001 and ending November 1, 2007. The Company's expectation is that the hedging relationship will be highly effective at achieving offsetting changes in cash flows.

This report contains certain forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) relating to the Company that are based on the beliefs of the management of the Company, as well as assumptions and estimates made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend" and similar expressions, as they relate to the Company or the Company's management, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions relating to the operations and results of operations of the Company as well as its customers and suppliers, including as a result of competitive factors and pricing pressures, shifts in market demand, general economic conditions and other factors including but not limited to, changes in demand for Pizza Inn products or franchises, the impact of competitors' actions, changes in prices or supplies of food ingredients, and restrictions on international trade and business. Should one or more of these risks or uncertainties materialize, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

---

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

---

10.1 Amended Employment Agreement between the Company and C. Jeffrey Rogers dated as of April 20, 2001.

On February 13, 2001 the Company filed a report on Form 8-K, amending the Company's Schedule 14A filing, Notice of Annual Meeting of Shareholders, dated October 19, 2000.

-----  
SIGNATURES  
-----

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PIZZA INN, INC.  
Registrant

By: /s/Ronald W. Parker  
-----  
Ronald W. Parker  
President and  
Principal Financial Officer

By: /s/Shawn Preator  
-----  
Shawn Preator  
Vice President,  
Controller and  
Principal Accounting Officer

Dated: May 9, 2001



AMENDMENT TO  
EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT ("Agreement") is made and entered into effective the 20th day of April 2001, by and between C. JEFFREY ROGERS (hereinafter referred to as "Rogers"), and PIZZA INN, INC. (hereinafter referred to as the "Company").

W I T N E S S E T H:

WHEREAS, the Company and Rogers entered into that certain Employment Agreement dated July 1, 1999 (the "Employment Agreement"); and

WHEREAS, pursuant to the Employment Agreement, the Company currently employs Rogers as its Chief Executive Officer, and the Company and Rogers desire to continue such employment and to amend the Employment Agreement pursuant to the terms and conditions herein set forth; and

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company and Rogers hereby agree as follows:

1. Section 3.02.

- - - - -

Section 3.02 of the Employment Agreement is hereby amended by deleting the existing language in its entirety, and substituting in its place the following:

3.02 CASH BONUSES. The Company agrees to pay Rogers the cash bonuses provided below during the term of this Agreement. The Compensation Committee also has the authority, in its sole discretion, to authorize an additional bonus to Rogers at each fiscal quarter end and fiscal year end if the Compensation Committee deems such a bonus appropriate, including any amounts not paid under these criteria.

(A) BONUS NO. 1

During the Term, the Company will pay to Rogers a cash incentive bonus (Bonus No. 1), payable at the end of each fiscal year, in the amount of \$100,000 if the Company's operating results report pre-tax net income growth or earnings per share growth of at least 10% more than the previous fiscal year.

(B) BONUS NO. 2

During the Term, the Company will pay Rogers a cash incentive bonus (Bonus No. 2), payable at the end of each fiscal year, based on the targets set forth below for EBITDA cash flow. For the purposes of this Agreement, "EBITDA cash flow" shall mean pre-tax earnings before interest, taxes, depreciation, and amortization prior to this bonus accrual per Section 3.02. If EBITDA cash flow equals or exceeds the target amount for an applicable year, then Bonus No. 2 shall equal \$150,000. If EBITDA cash flow equals or exceeds 80% but is less than 100% of the target amount for an applicable year, then Bonus No. 2 shall equal 80% of Bonus No. 2. There shall be no Bonus No. 2 if EBITDA cash flow is less than 80% of the target amount for an applicable year. If EBITDA cash flow exceeds the target amount for an applicable year by \$300,000 or more, then Bonus No. 2 shall increase by an additional \$50,000.

FISCAL YEAR ENDING	EBITDA CASH FLOW TARGET
June 2001	\$6,000,000
June 2002	\$6,250,000
June 2003	\$6,500,000
June 2004	\$6,750,000

(C) BONUS NO. 3

During the Term and beginning with the quarter ended March 25, 2001, the Company will pay Rogers a cash incentive bonus (Bonus No. 3), payable at the end of each semi-annual period of the Company's fiscal year, in the amount of \$3,000 for each new store opening during each semi-annual period, provided that a minimum of 18 units open during each semi-annual period of such fiscal year. To the extent that 18 new units are not opened in either semi-annual period, the entire unpaid amount of Bonus No. 3 shall be paid to Rogers at fiscal year end if 36 new units are opened by fiscal year end. In the event that an Area Development or Master License Agreement is entered into during the fiscal year, the Compensation Committee, in its sole discretion, shall determine the credit, if any, of such agreement towards the payment of Bonus No. 3, based on, among other relevant criteria, the sales price, the projected unit growth and the development schedule of the territory.

(D) BONUS NO. 4

During the Term and beginning with the quarter ended March 25, 2001, the Company will pay Rogers a cash incentive bonus (Bonus No. 4), payable quarterly, in the amount of \$25,000 for each fiscal quarter based on meeting or exceeding the targets set forth below for Norco gross sales. For the purposes of this Agreement, "Norco Gross Sales" shall mean all revenues generated by the Company's distribution division (Norco), excluding the impact of cheese price fluctuations (using fiscal year 2000 as the standard base). Bonus No. 4 shall be payable if Norco gross sales equals or exceeds the target amount for the respective quarter. To the extent that there is a shortfall from such goal in any given quarter, the entire year-to-date unpaid amount of Bonus No. 4 shall be paid to Rogers if the total Norco Gross Sales is equal to or greater than the respective yearly Norco Gross Sales target.

QUARTERS WITH FISCAL YEAR ENDING	QUARTERLY NORCO GROSS SALES
June 2001	\$13,000,000
June 2002	\$13,500,000
June 2003	\$14,000,000
June 2004	\$14,500,000

(E) BONUS NO. 5  
During the Term and beginning with the quarter ended March 25, 2001, the Company will pay Rogers a cash incentive bonus (Bonus No. 5), payable quarterly, in the amount of \$25,000 for each fiscal quarter in which the Company's total general and administrative expenses (G&A) do not exceed 8.5% of total revenues. To the extent that there is a shortfall from such goal in any given quarter, the entire year-to-date unpaid amount of Bonus No. 5 shall be paid to Rogers if the total year-to-date G&A expenses do not exceed 8.5% of total revenues.

2. Miscellaneous. Except as expressly amended hereby, all of the  
-----  
representations, terms, covenants and conditions of the Employment Agreement (i) are hereby ratified and confirmed, (ii) shall remain unamended and not waived and (iii) shall continue to be in full force and effect.

EXECUTED as of the date and year first above written.

PIZZA INN, INC.

By: /s/Ronald W. Parker  
Ronald W. Parker, President

/s/ C. Jeffrey Rogers  
C. Jeffrey Rogers